Transition Economies in the Middle East: the Syrian Experience

Abstract:

There have been no in depth studies of post Socialist transition in the Middle East. Syria's experience is a useful one to explore given its historically important role in the region and its distinctive characteristics. The Syrian economic transition, from the early 1990s to 2011, was in two phases: an incremental liberalisation phase and a transition to Social Market Economy phase. During both phases, Syrian policy makers showed a preference for a gradualist approach to economic transition, rather than a big-bang approach. This was facilitated by oil revenues and subsidies from the Gulf States. The Syrian experience therefore has its own distinct characteristics, as well as elements in common with the transitions in other post Socialist economies.

Key Words: Transition Economies; Syria; the Middle East.

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1. Introduction

The primary idea of economic transition is to replace the institutions of a centrally planned economy with those of a market-based economy (Meyer, 2001; Newman, 2000). Institutions are '*the rules of the game in a society*' which determine the incentives and barriers faced by economic players (North, 1990). Studies which focus on transition economies require a certain level of understanding of their context. Since there have been no in depth studies of economic transition in the Middle East, Syria, which is a historically important country within this region, is an appropriate case study.

From 8th March 1963, the ruling Syrian Socialist *Ba'th* Party adopted Socialism as its ideology for the Syrian economy. However, fundamental problems in the Socialist economic policy started to appear and, as a result of these problems, a deep recession struck the Syrian economy during the 1980s. Initially, the Syrian government tried to implement incremental economic reforms in an attempt to obtain support from the private sector to overcome these problems. However, these attempts failed to make any significant improvements to the Syrian economy. Therefore, in 2005, the Syrian government decided to begin a transition to a Social Market Economy; a market-based economic model which stresses two major concepts: free market forces and social welfare issues (Raphaeli, 2007).

The Syrian economic transition has been disrupted by an ongoing uprising against the government, which has been taking place since March 2011. The intensity of violence across the country has severely damaged the Syrian economy, which was estimated to have contracted by almost 19 percent in 2012 alone (PRS, 2014). Moreover, the success of the armed opposition in maintaining a strong presence in many strategic locations made the Syrian government more concerned about its survival than how to improve the country's economy. As a result, the Syrian government has shifted its economic policy to finance the army and obtain public support by, for example, paying the wages of public sector employees even in areas under opposition control (PRS, 2014).

Nevertheless a study of the Syrian experience as an economy in transition for twenty years since the early 1990s is helpful for achieving an understanding of similar contexts. Therefore, the paper explains the rationale for the Syrian government's decision to move towards a market-based economy and its chosen path for the transition. This requires an explanation of the main characteristics and performance of its previous Socialist economy. Section 2 starts by explaining the Syrian economic experience under Socialist ideology. Section 3 explains the various events that triggered the economic transition. Section 4 outlines the Syrian government's chosen approach to and path for Syria's economic transition towards a market-based economy. Some conclusions are outlined in Section 5.

2. The Characteristics of the Syrian Economy under Socialist Ideology

By the mid-1950s, Syria's post-independence capitalist expansion reached a point beyond which development seemed to require major social reforms and an increasing role for the state, which the Syrian agrarian-commercial bourgeoisie obstructed (Hinnebusch, 1995). In March 1963, the Syrian Socialist *Ba'th* Party, which grew out of this crisis, overthrew the old regime and seized power in Syria. Subsequently, it functioned as the only officially recognized political party in the country and adopted Socialism as its ideology for the Syrian economy (Hopfinger & Boeckler, 1996).

The *Ba'th* party created a Leninist-like state which integrated those social forces that had either paid the costs or enjoyed few of the benefits of capitalist expansion - peasants, workers, rural minorities and intellectuals (Hinnebusch, 1990). Through nationalisations, land reform and government control over the market, the Syrian regime destroyed the economic bases of the bourgeoisie; the big latifundia were broken up and industrialists emigrated or quit their businesses (Hinnebusch, 1995). The Syrian version of Socialism, therefore, had much in common with those which existed in Communist countries. Its two main characteristics were central planning of most economic activities and bureaucratic control of economic organizations (Sukkar, 2003).

Central planning was introduced in Syria in 1963 in order to overcome some of the problems which were perceived to be caused by the capitalist system, such as instability in the supply and demand mechanism and a high rate of unemployment (Hinnebusch, 1997). Therefore, bureaucratic control replaced the supply-demand mechanism in Syria for most economic transactions in an attempt to achieve coordination among economic players, which were mainly state-owned enterprises (SOEs). The *Ba'th* party transferred private property to the public sector which became the core of the Syrian economy and the main engine of investment (Hopfinger & Boeckler, 1996). In the 1970s, much of nominally private agriculture was in state-dependent cooperatives - 85 percent of small peasants controlled one-third of cultivated land (Hinnebusch, 1989). In industry, the public sector dwarfed a very large number of small and undercapitalised enterprises: 98 percent of the 40,000 private manufacturing enterprises employed less than ten workers. In 1984, the public sector employed one-third of the industrial labour force but produced 78 percent of gross output (Hinnebusch, 1995).

Syria thus became one of the 'centrally planned economies' under which up to one third of the world's population lived at one time (Peng, 2000). The direction of the Syrian economy was based on multiyear plans designed by the State Planning Commission, a national planning agency, which co-ordinated the activities of the SOEs (Ericson, 1991). Under Syrian Socialism, the decision to enter or exit from the market was taken by the State Planning

Commission, which also decided on the annual scale and scope of production on behalf of the SOEs' managers. Consequently, variety, quality or customer services and satisfaction were not considered by the SOEs' managers, who were mainly production engineers or politicians appointed by the State Planning Commission and who functioned as implementers of orders, rather than as decision makers (Korani, 1992).

State Socialism worked well initially because of the ready availability of basic education, jobs, health care and housing for the majority of the population during the 1960s and the 1970s (Goulden, 2011). Indeed the gap between socialist and capitalist economies narrowed over the same period (Khanin, 2003; Weigl, 2008). Moreover, in the case of Syria, the economy was supported by financial assistance from Arab Gulf countries during the 1960s, in addition to growing oil revenues during the 1970s (Hinnebusch, 1997). However, this success did not last for long and problems caused by conceptual and implementation errors in Syrian Socialist economic policy started to appear (Sukkar, 2003). Syrian Socialism's conceptual economic problems fell into two groups.

First of all, there were *Coordination Problems* which were caused by extreme dependence on the State Planning Commission's bureaucratic coordination of the economic activities of the SOEs (Ericson, 1991). This situation resulted in confusion and inconsistency because of the continuous revisions and adjustments to economic plans resulting from the State Planning Commission's shortage of the information which was needed to build their plans on a realistic and correct basis, as is the situation in market-based systems (Naughton, 1996). Therefore, the State Planning Commission was incapable of providing coherent production plans for the dominant public sector and the output targets for the SOEs were always unrealistic. The appointment of unqualified managers to SOEs for political reasons, in addition to the rapid turnover in such positions, caused a shortage of experienced managers, especially in relation to quality and efficiency issues. These SOEs' managers had no power to adapt their production to market conditions. For all these reasons, it was impossible to solve the continuous problem of matching SOEs' outputs to market needs (Hinnebusch, 1995).

Secondly there were *Incentive Problems*. The failure of managers to achieve their targets did not threaten the existence of SOEs, since failing SOEs were financially supported by the state for political reasons. Thus the managers of SOEs lost any incentive to increase output as to do so would only lead to higher targets in the following year (Tan & Peng, 2003). In addition, and in the absence of pressure or incentives to improve performance, little attention was paid to competitive strategies and ideas for innovation (Peng & Heath, 1996). Shop-floor employees also lacked incentives to improve performance. This is because the strategy of SOEs as '*the property of the whole people*' turned into '*the state property belongs to all and to none*', which led to the absence of motivation that usually comes from property ownership (Korani, 1992, p. 75).

Moreover, the payment of low wages to SOEs' managers and employees made them careless and obsessed with personal benefits. Shop-floor workers were unmotivated to care about their work quality or to cooperate with their managers in solving production problems, since they would be paid the same salary, irrespective of performance (Tung, 1981; Walder, 1989). The policy of maximizing employment and providing job security worsened the problem as public sector workers knew that they would not be dismissed for poor performance (Sukkar, 2007). Since skilled workers were paid more in the limited private sector, they usually chose not to work for the public sector. If they could not find job opportunities within the private sector, they emigrated. This situation turned the public sector into a provider of mass employment opportunities for unskilled workers or for those looking for easy employment opportunities depending on their political relationships (Hinnebusch, 1995).

In the following sections, an explanation is provided for the events which triggered the economic reforms and led to the transition decision in Syria. The Syrian government's chosen approach and path towards a market-based economy are then presented.

3. Triggers for Syrian Economic Transition

The focus of Syrian SOE managers on achieving production volume targets meant that profitability and cost efficiency were not relevant. The prices of public sector products were simply marked up to give only a 10 percent return on investment. In line with Socialist values, SOEs in many industries, e.g. sugar, textiles and fertilizer, had to sell their products near or below their production costs. Therefore, financial returns in the public sector were insufficient to finance major industry upgrades and to fund the building of new plants (Hinnebusch, 1995).

During the 1970s, foreign investment was restricted and Syria tried to be economically independent through an extensive focus on industrialisation as a substitute for imports. Public investments during this period were financed by increasing oil revenues and aid from other Arab countries, while the public sector's financial contribution to these investments was modest due to their insufficient returns (El-Laithy & Abu-Ismail, 2005).

The focus on industrialisation during this period encouraged mass consumption rather than capital accumulation. This caused a dependence on imported capital goods without the development of the export capacity needed to earn foreign currency. The inefficiency of the export agencies, which mainly operated with a bureaucratic orientation rather than a merchandising one, deepened the balance of payments problems. This situation led to bottlenecks in access to raw materials and spare parts for machinery. Therefore, many public sector plants had to operate at low capacity when their out-of-date equipment broke down (Hopfinger & Boeckler, 1996).

During the 1980s, oil prices fell sharply and financial support from the Arab Gulf countries was reduced greatly. As a result, the Syrian government's investment declined, and its ability to create new work opportunities became very limited (Hinnebusch, 1995). As a result of all these problems, a deep recession struck the Syrian economy during the 1980s (El-Laithy & Abu-Ismail, 2005). During this recession, Syria experienced shortages of foreign exchange, increased debt and sharp falls in income per capita (Hinnebusch, 1997). Therefore, a strong rationale for liberalising the Syrian economy emerged in the early 1990s, especially after the termination of its relationship with the former Soviet Union following the latter's collapse in 1991.

4. The Syrian Economic Transition

The Syrian government responded to the fundamental problems of its Socialist economy and the 1980s economic recession in two major stages. These were firstly an incremental liberalisation stage and secondly a transition to Social Market Economy stage.

4.1 The incremental liberalisation stage

By the early 1990s, the Syrian government was convinced that economic liberalisation was a necessity. However, it believed that liberalisation must be adopted cautiously and that private sector interests should not control economic policy. In the Syrian government's view, before major public sector reforms or privatizations could take place, liberalisation must develop a dynamic private sector that could absorb the unemployed workforce. In its view, some reforms could be made overnight, such as removing private ownership restrictions and liberalising markets (Weigl, 2008). However, many other reforms, like changing the structure and governance of former SOEs and equipping the economy with market-supporting institutions, would need years and perhaps decades to be accomplished (Buck, Filatotchev, Nolan, & Wright, 2000).

The Syrian government's cautious approach towards liberalisation was attributable in part to its awareness of the possible negative consequences of rapid economic liberalisation (Hinnebusch, 1997). The move to a market-based economy by undertaking reforms as fast as possible caused a dramatic decline in the level of economic activities among some of the Central and Eastern European (CEE) countries after the Socialist bloc's breakup, which led to unstable and oscillating economies (Rosser Jr & Rosser, 2004). This is '*big bang*' approach to economic transition was first adopted by Poland in 1990 and was later followed by Russia and some of the Newly Independent States (NIS) of the former Soviet Union (Lipton, Sachs, Fischer, & Kornai, 1990; Roberts & Zhou, 2000; Sachs, 1993).

The Syrian government's approach could therefore be described as '*gradualist*' and similar to the ones adopted by China and, later, Vietnam and Slovenia (Rojec, Šušteršič, Vasle, & Jurancic, 2004). These countries chose to deepen their transition gradually over time by applying incremental and partial reforms. They started by reducing the central planning role, liberalising prices and opening their door to foreign direct investment (FDI). Moreover, instead of following an aggressive program of privatization, other forms of ownership were allowed to emerge and spread, such as public-private ownership (Jefferson & Rawski, 1994).

Therefore, an incremental liberalisation plan was designed in Syria which aimed to encourage private sector expansion. Incremental liberalisation started by offering concessions to the private sector through enacting new legislation and reforming the banking and taxation systems. Subsequently, the list of goods which the private sector could not export was shortened, and controls over foreign currency were reduced (El-Laithy & Abu-Ismail, 2005).

Muhammed Al-Imadi, the Minister of Economy and Foreign Trade, was the main driver of the liberalisation process during this period. Previously, he had been persuaded by President Hafez Al-Assad to leave his work with the Kuwait Gulf Fund in order to lead Syria's economic liberalisation and was promised full authority to execute the needed economic reforms. However, Al-Imadi did not get the required power and had to work patiently and, sometimes, to struggle for his reforms (Hinnebusch, 1997).

Al-Imadi started by issuing a new investment law (Law No.10 for 1991) and showed interest in establishing joint venture (private-public) enterprises within the tourism and agriculture sectors. He had to struggle against Marxist MPs, who considered the stock market to be a lottery, to create a new financial market law. He also had to face Syrian trade unions’ worries about bankruptcy and their objections to his attempts to make the public sector operate under market rules, which focused on achieving higher financial profits. Furthermore, he sought to promote the Syrian economy’s integration into world markets by making progress on joining the General Agreement on Tariffs and Trade (GATT) and by stopping debt repayment exports to the former Soviet Union. Instead, he tried to encourage, or sometimes force, local merchants and industrialists to export to the West in order to generate more foreign exchange (Hinnebusch, 1997).

During the first half of the 1990s, the private investments which took place in response to these reforms exceeded the state investment budget for the first time since the nationalisations of the 1960s. These investments, in addition to the discovery of new oil fields, bolstered the recovery of the Syrian economy and led to an average growth rate of 7 percent (Sukkar, 2001).

However, economic growth slowed to an annual average of 2.6 percent during the second half of the 1990s. This was because there were many weaknesses in the business climate that caused a fall in investment from 27 percent of GDP in 1995 to 17.6 percent in 2000. These weaknesses were in public administration, trade and exchange regimes, the regulatory and tax environment, and the financial sector (IMF, 2005).

Oil formed 70 percent of Syrian exports and contributed around 50 percent of fiscal revenues between 2001 and 2004. However, the Syrian economy could no longer rely on its oil revenues to mask its weaknesses. Oil production fell and was not even able to meet the growing domestic demand in 2005. As a consequence, Syria became a net oil importer for the first time in 2006 (PRS, 2009).

These facts made the Syrian authorities start to think of building the foundations for a growing non-oil economy. This can be seen clearly in the words of Dr. Adib Mayaleh, the governor of the Central Bank of Syria, who said, '*We have to move from an oil economy to one based on banking, services and tourism'*. He added, '*Most importantly, we have to change the mind-set of Syrians from a Socialist system to a market system*' (Raphaeli, 2007, p. 8).

4.2 Transition to a Social Market Economy

It is clear from the previous discussion that incremental reforms failed to make any significant changes to the performance of the Syrian economy. The Syrian economist Nabil Sukkar (2003), who was involved in modelling the Syrian economy during the 1990s, as part of the government's economic consultation team, attributed this failure to the absence of a clear and coherent reform program. Furthermore, he argued that the incremental reforms were a response to the foreign exchange crisis, and were not motivated by a conviction that it was necessary to abandon the former central planning system and to move to a market-based economy.

Moreover, the heavy reliance on external aid and oil revenues masked the serious problems of the Socialist economy and prevented Syria from achieving sustainable growth rates (Sukkar, 2003). Therefore, Syria was not prepared to face the challenges of the 21st century. Increasing globalisation and growing unemployment put more pressure on its economy. In order to handle these challenges, the IMF suggested that the contribution of private investment to GDP should be increased to at least 30 percent (IMF, 2005).

The IMF Executive Board argued that generating new resources for growth and income to replace the depleting oil reserves and create new work opportunities to overcome unemployment would not be possible by following the same slow reform path. This was because '*a slowdown in the pace of economic reforms could dampen investors' interest and the prevailing political uncertainties will remain a source of vulnerability*' (IMF, 2006, p. 8). Similarly, Sukkar (2001) stated that achieving higher growth rates in Syria would not be possible by continuing to undertake hesitant reforms. In his opinion, attracting big local and foreign investments required strong reforms and a full commitment to a market economy as *'Big investments will not come in, if the door is half open and half closed'* (Sukkar, 2001, p. 4).

Therefore, the Syrian government became convinced that in order to achieve significant economic and social successes, the 10th five year plan (FYP) (2006 to 2010) must be transformation – oriented and in June 2005 the Syrian *Ba'th* Party's Congress adopted *the* Social Market Economy as its new ideology for the Syrian economy. The new ideology was based on the use of free market forces while stressing social support (Al-Dardari, 2006).

Accordingly, the 10th FYP was designed to move the Syrian economy in this direction and was intended to achieve a 7 percent annual real GDP growth, by diversifying the Syrian economy, increasing FDI inflows and extending trade ties. The *Ba'th* Party's new ideological approach gave Syrian officials the authority and the courage to move further in the liberalisation process. Abdallah Al-Dardari, the head of the State Planning Commission at that time, and Deputy Prime Minister for economic affairs since 2005, said, *'Whatever the* *negative consequences of globalisation, isolation is far more dangerous for Syria'* (Raphaeli, 2007, p. 41).

Moreover, the 10th FYP adopted an *'indicative planning policy'* instead of the previous highly centralised and compulsory planning process. The *'indicative planning policy'* approach revealed the Syrian government's preference for incremental liberalisation rather than the *big-bang* approach. According to this policy, the state would only direct investment and market activities, and would not dominate or control them as it used to do. The government's 10th FYP explained this policy approach by saying that the state would try to expand private investment opportunities and promote them. Accordingly, the government's economic intervention would be confined to issuing the laws and regulations required for smooth market transactions, combating monopolies, regulating competition, providing a suitable environment for encouraging local and foreign private investment and ensuring that the different market players were socially responsible (Al-Dardari, 2006).

4.3 Reform Measures after the Transition Decision in 2005

The Syrian government's plan to move to a more market-based economy needed a major effort to modernize and upgrade the private sector. However, the needed capital, advanced technology and experience were far beyond the capability of the private sector itself (Sukkar, 2010). In this situation, FDI can play a vital role in bringing in many of these significant ingredients for private sector development and economic transition (Estrin, Richet, & Brada, 2000). Moreover, FDI can speed up the transition process and contribute to a host country's growth through the various spillovers and the know-how transfers which can be generated from the advanced technology brought in by foreign enterprises (Stephan, 2011), and by encouraging organizational restructuring which can provide more effective corporate governance (Cipollina, Giovannetti, Pietrovito, & Pozzolo, 2012; Djankov & Murrell, 2002).

Therefore, among the many issues which the Syrian government needed to tackle after taking the transition decision, the attraction of more FDI inflows was a major priority. By 2009, Syria had witnessed a 70 percent increase in its FDI inflows as a response to the new business opportunities resulting from the country's growing economic openness and its better international relationships with other nations (UNCTAD, 2009). Moreover, in January 2009, an IMF report on Syria commended the annual average growth of non-oil GDP of 7 percent between 2004 and 2008, declining low government debt and the healthy level of foreign reserves. The IMF Executive Directors attributed the strong performance of Syria's overall macroeconomic environment during that period to the government's reforms, which aimed to move the Syrian economy in a more market-based direction (IMF, 2005).

The institutional reforms conducted by the Syrian government can be classified into two major groups: policy reforms and business facilitation initiatives (Figure1). After the transition decision was taken in 2005, the most important type of policy reform in Syria was the liberalisation of FDI policies. This consisted of the reform of core rules and regulations governing the entry of multinational corporations and the operations of FDI and the standards of treatment accorded to foreign investors and the functioning of the markets within which they operate.

[Figure 1 near here]

For instance, from the early days of the 10th Five Year Plan (FYP) (2006 to 2010), the Syrian government took many measures to reform the financial sector with the aim of achieving a gradual implementation of market-based tools for conducting monetary policy, instead of the previous administrative tools. By 2007, a separation between state enterprises' operations and the state budget was established. In addition, top marginal corporate taxes were reduced from 65 percent to 35 percent during the same period (PRS, 2009).

The most noticeable reaction to these reforms was the expansion of private banks. By September 2009, there were 12 private banks established in Syria which accounted for about 24 percent of total Syrian banking sector assets (IMF, 2009). Two Islamic banks also entered Syria following the legislative Decree No.35 of 2005 which authorized the establishment of this type of bank in Syria (IMF, 2009). Some articles of Law No. 28 of 2001, which authorized private banks in Syria for the first time since 1963, and Decree No.35 of 2005 were amended by Law No.3, enacted in January 2010. Law No.3 raised the needed capital of private banks from $60 million to $200 million, and that of Islamic banks from $100 million to $300 million. It also increased the allowable percentage of foreign ownership of private commercial banks from 49 percent to 60 percent, which gave foreign investors further control on their investment and, therefore, could encourage further foreign investment in the banking sector (PRS, 2010).

In April 2006, the Syrian government enacted Law No.24, which authorized the establishment of private currency exchange companies. As a result, by the end of 2011, there were 10 money exchange companies operating in Syria. In addition to that, in February 2007, the Syrian government issued Decree No.15 that permitted the establishment of financial, social and banking institutions with a minimum capital of $5 million to offer micro-financing and insurance services to small investment projects. In January 2010, the Saudi-based microfinance institution, Bab Rizq Jameel, was the first microfinance bank that obtained a license to operate in Syria (PRS, 2011). It should be noted that the majority of private banks and money exchange companies which entered Syria as a result of the above changes were Arab-owned since US sanctions made Western banks and other financial institutions less interested in investing in Syria (EMM, 2009).

The Syrian government took many other initiatives to equip the Syrian economy with suitable legislative tools that could move it to a more market-based economy. These legislative initiatives tried to open the economy to private investment in general, and FDI in particular, and were necessary to regulate the functions and the relationships among economic players. For example, in January 2007, the Syrian government enacted Legislative Decree No.8 to replace investment law No.10 of 1991. The aims of Legislative Decree No.8 were to make the Syrian investment environment friendlier to the private sector by offering them various incentives. For instance, it allowed private investors (foreigners and locals) to own or lease the land and buildings needed for establishing or expanding their investment projects. The decree also allowed free repatriation of profits, invested capital and shares on condition that all tax responsibilities were met. If private investors were not able to continue their investment plans because of difficulties or circumstances beyond their control, Decree No.8 gave them the right to repatriate all the foreign currency they had brought to Syria six months after its arrival. It also allowed foreign staff to repatriate up to 50 percent of their net income and full repatriation of end-of-service benefits. Furthermore, Decree No.8 granted to investors full exemption from paying customs duties on equipment that was imported to set up their projects, in addition to corporation tax deductions, if these projects were in one of Syria's industrial zones (PRS, 2011).

Most sectors became open for private investment in Syria as a result of the new regularity framework. Decree No.8 of 2007 and the previous Investment Law No.10 of 1991 covered and regulated most of these sectors including manufacturing (except water bottling, cotton ginning and cigarette production), agriculture, transport, health and services. In addition, many other sectors that were not covered by Law No. 10 and Legislative Decree No.8 were covered later by special legislation. For instance, in 2008 and 2009, the Syrian government enacted legislation that allowed the private sector, both domestic and foreign, to invest in extraction, mining, and quarry projects. In addition, on 14 November 2010 the Syrian government issued Law No.32 which allowed both foreign and domestic private sectors to invest in electricity generation and distribution projects. Foreign and domestic private investments in the real estate and tourism sectors were regulated by a separate law and tax framework and were managed directly by the Ministry of Tourism. Similarly, oil and other mining investments were covered by the Ministry of Petroleum's rules and regulations. Licensing of private banks and insurance companies was the responsibility of the Ministry of Finance. Finally, private universities were coordinated directly through the Ministry of Higher Education, and private schools through the Ministry of Education (PRS, 2011; UNCTAD, 2011).

In April 2008, the Syrian government enacted Law No.7, which addressed competition and anti-trust issues for the first time. This law established the Syrian Competition Council which was responsible for controlling the Syrian Competition Authority, which was also established by the same law. The Syrian Competition Authority's responsibilities were drawing, amending, developing and applying a general competition plan. In addition, the Competition Authority was responsible for investigating any breach of this plan by economic actors and for imposing suitable fines and other necessary actions. Law No.7 of 2008 also stated that the prices of goods and services would be defined by free market mechanisms and free competition rules. Moreover, this law prohibited cartels and economic entities from abusing their dominant position in the market in a way that could limit or prevent free competition. In addition, public sector enterprises were informed that they would no longer be allowed to operate as monopolies, especially when the project could be funded by foreign or domestic private capital (PRS, 2011).

Efforts were also taken to enhance the protection of intellectual property rights (IPRs) in Syria. For example, in March, 2007, the Syrian government enacted Law No.8, which regulated trademarks, geographical indications, and industrial models and designs. Later, in May 2008, Syria joined the Geneva Act of the Hague Agreement pertaining to the protection of international designs. In order to support these efforts, the World Intellectual Property Organization (WIPO) agreed in late 2009 to help the Syrian government by modernizing the Patent Office in Damascus. In addition, WIPO suggested translating their documents, publications and guidelines into Arabic and distributing them among small and medium-sized businesses(PRS, 2011).

The Syrian government's policy initiatives for creating a friendlier environment for FDI also included trade policy liberalisation initiatives and new international trade agreements. For example, a fully revised list of goods that could not be imported was issued in April 2008. Many goods were no longer banned from import (PRS, 2009). Moreover, in 2005, Syria joined the Greater Arab Free Trade Area (GAFTA). This agreement included the following 17 Arab countries: Bahrain, Libya, Sudan, United Arab Emirates, Egypt, Morocco, Syria, Iraq, Oman, Tunisia, Jordan, Palestine, Kuwait, Yemen, Qatar, Saudi Arabia and Lebanon. As a result of the GAFTA, trade was fully liberalised among these 17 Arab countries including Syria (ECSEI, 2012). In addition to the GAFTA as a regional integration agreement, Syria signed a bilateral free-trade agreement with Turkey, which came into force in January 2007 (PRS, 2009). Through this agreement and the economic co-operation between them, both Syria and Turkey aimed to create conditions which would encourage investments, especially joint ones, in both countries. For example, the agreement stated that trade and commercial transactions and payments between both parties should be free from any restrictions, such as those on currency exchange.

All the institutional changes presented above aimed to create a friendly investment environment and a level playing field that would enable FDI to take place in the newly opening economy of Syria. Such institutional changes were accompanied by complementary measures to facilitate foreign investment undertaken in Syria (UNCTAD, 1998). Such measures included promotional actions, counselling, offering assistance to obtain required permits, accelerating the stages of the approval process and the provision of after-investment services. These measures were important for Syria, due to their role in eliminating bureaucratic barriers facing foreign investors (UNCTAD, 1995) and for improving the economy's image as a destination not friendly to FDI (Wells & Wint, 2000).

On 27 January 2007, the Syrian Investment Authority (SIA) was established by Article III of Decree No.9 to offer most of the above-mentioned business facilitations. This Authority was expected to play an important role in implementing the new investment policies and in achieving their goals by enhancing the investment environment (UNCTAD, 1998). According to the same decree, it was the responsibility of the SIA to simplify and facilitate investment procedures, to promote investment projects, to track projects' implementation and overcome obstacles that hinder their implementation and continuation. Most importantly, the Syrian Investment Authority was required to establish a one-stop shop, which was responsible for registering, licensing, granting approvals and certificates required by legislation in force, following up on-going projects, identifying their constraints and coming up with solutions for them.

5. Conclusion

Syria was in transition towards a market-based economy from the early 1990s. However, as in many other economies, the transition process was turbulent, complex, and sporadic. Moreover, institutional reforms were unpredictable during the transition period, which led to the emergence of a blurred legal framework, an underdeveloped judicial system, rigid bureaucracy and corruption, especially as informal institutions change much more slowly than formal ones and are not easily changed by legislation (Šimić Banović, 2015; Svejnar, 2002).

Syria's economic transition started cautiously following an approach which was based on incremental liberalisation. The cautious approach was attributed partially to the Syrian government's awareness of the possible negative consequences of rapid economic liberalisation. However, incremental liberalisation failed to make any significant improvement to the Syrian economy due to the absence of a clear and coherent reform program. Moreover, in 2004, the Syrian government realized that it could no longer rely on oil revenues to overcome the problems of its economic policies. Therefore in June 2005, the government announced the Social Market Economy as its new ideology for the Syrian economy; and its 10th FYP was designed to move the country in this direction.

The Syrian government started the process of building the foundations for a Social Market Economy by equipping the country with market-supporting institutions following the path illustrated in Figure 1. This consisted of the reform of Syria's core rules and regulations to create a friendly investment environment and a level playing field that could enable private investment in general, and FDI in particular, to take place in Syria. The reform process also included complementary measures to facilitate private investment.

Despite its further transition being interrupted since 2011 by the ongoing conflict, Syria provides a case study of a transition economy from a region, the Middle East, which has not been explored before. Therefore, this paper helps to further our understanding of post Socialist transition economies. This paper also shows the distinctive features of the Syrian transition economy, such as the ameliorating role of oil and financial assistance from Arab

Gulf, as well as its similarities to other economies, in terms of the rationale for and the path of transition.

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Figure 1 The Syrian Government Institutional Reforms